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STATE FOR SCA/INSB AND EEB/IFD/OMA
STATE PASS USTR FOR VICKY KADER
TREASURY FOR MARY BRENNAN
COMMERCE FOR ITA EROL YESIN

SENSITIVE

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SUBJECT: U.S. Business Delegation Examines Investment Opportunities
in Sri Lanka

¶1. (U) SUMMARY: On October 13 U.S. and Sri Lankan government officials and business people met in Colombo to attend the first post-conflict Private/Public Partnership Conference, focusing on how economic development can help foster national reconciliation. The mood of the conference was upbeat, with Sri Lankan officials providing information on the economy's fundamentals and giving an outline of opportunities for trade and investment. Following the conference, U.S. business people met one-on-one with Sri Lankan counterparts and government officials to more closely examine individual plans and interests. Post's impression was that U.S.-based leaders were interested but not quite ready to invest yet, while U.S. business representatives based in India were ready to move. END SUMMARY.

¶2. (U) Representatives of over 40 U.S. firms and 30 local firms attended a public-private partnership forum to discuss 'investment and business opportunities in post-conflict Sri Lanka.' Organized by the Sri Lankan Department of Commerce, the focus was on Sri Lanka's overall economic and investment climate, particularly on ways to redevelop the North and East. The U.S. delegation included 16 U.S. companies based in India and several U.S. multi-national firms. The conference heard addresses by the Sri Lankan Minister of Enterprise Development and Investment Promotion, Central Bank Governor Nivaard Cabral, Attorney General Mohan Peiris and the Sri Lankan Ambassador to the U.S., Jaliya Wickramasuriya. Ambassador Butenis and visiting Assistant U.S. Trade Representative (AUSTR) Michael Delaney emphasized that Sri Lanka had a unique opportunity to build an inclusive economy for all Sri Lankans. All speakers noted the historic opportunity to turn a page in Sri Lanka's development and start healing the divisions of the recent civil war.

Ambassador Wickramasuriya urged businesses to invest in the North and East said 'economic opportunity is freedom.' AUSTR Delaney agreed that there is great untapped potential in Sri Lanka and employment creation is a key factor in fostering national reconciliation. AUSTR also urged U.S. companies entering Sri Lanka to pay attention to promoting internationally accepted labor standards in their businesses in Sri Lanka.

Early Bird Catches the Worm

¶3. (U) 'The early bird catches the worm' was an oft repeated slogan throughout the day. Governor Cabral said despite the war, Sri Lanka's per capita income nearly doubled from 2003 to 2008 to USD2000. Furthermore, he claimed that following the end of the war the Sri Lankan economy could 'leap frog' and double the per capita

income once again by 2014. He invited investors to share in Sri Lanka's endeavors and emphasized that whoever gets in early will benefit most.

Reconstruction of the North and East

14. (U) All speakers made a strong pitch for development in the North and East of the country, where the bulk of the fighting and destruction has occurred in the final years of the conflict. These regions cover 30 percent of the land area and 50 percent of the coastal belt of Sri Lanka. Both AUSTR Delaney and Ambassador Wickramasuriya highlighted the need as well as opportunities to build infrastructure in the North and East. Wickramasuriya said that roads, schools, health care facilities and irrigation systems need to be built. Further, business sectors such as fisheries, agriculture and tourism offer good prospects for investors. For instance, the best beaches in Sri Lanka are in the northern and eastern coastal belt. The government has already identified three locations in the North and East for tourism development. These locations are in Trincomalee, Puttalam and Amapara districts. Another key sector is fisheries. Potential has increased with the government now controlling the full exclusive economic zone (which covers an area more than eight times the size of the island). There are also opportunities for property development (most of the property in the North and East is damaged by the conflict) and investors heading there will receive generous tax holidays ranging from 10-20 years and be eligible to import raw materials and capital equipment duty-free.

15. (U) On October 14, a portion of the trade delegation traveled to Trincomalee in the East to learn first-hand about investment opportunities there and to meet with local business and government

officials. Local government officials stressed opportunities with agriculture, fishing and livestock, and noted that several garment factories had recently opened in the East. The GSL also showed off the large natural Trincomalee harbor, but today the harbor is little used aside for supplying a wheat milling plant and a cement factory.

The business leaders based in India seemed much more interested in Eastern opportunities.

Countrywide Business Opportunities

16. (U) The following areas offer the best prospects for investment: IT outsourcing, Knowledge-based Business processes Outsourcing (BPO), Tea, Rubber products, Ceramics and porcelain, Gems and Jewelry, Light and Heavy Manufacturing, Fisheries, Agriculture and Dairy Farming, Health Care, Tourism, and Food Processing.

17. (SBU) The Attorney General (AG) in his speech listed the numerous laws that provide investors with legal protections. (NOTE: Post will provide additional information on these laws upon request. END NOTE.) Sri Lanka still faces significant problems with corruption, cumbersome rules and regulations and government procurement policies which often favor national companies. Potential investors are advised to review the Country Commercial Guide or contact Commercial Attache Ken Kero-Mentz at CommercialColombo@state.gov or keroka@state.gov.

18. (U) Sri Lanka also offers generous tax incentives through the Board of Investment (BOI) for foreign investors. The tax holidays for export industries and services range from 3-5 years. Large infrastructure projects receive tax holidays of 3-15 years. As highlighted above, investors going to the North and East will receive additional incentives.

19. (SBU) Investors in Sri Lanka could also access Indian and Pakistan markets duty-free through bilateral Free Trade Agreements. In addition, Sri Lankan exports to EU are duty free under the EU's GSP Plus. (Note: On October 19, the European Commission recommended cancelling Sri Lanka's GSP Plus benefits due to human rights issues surrounding the end of the war and present confinement of 250,000 people in closed camps. The EU process is lengthy, and GSP Plus benefits should remain in place until at least mid 2010. End Note.) Two U.S. business executives active in Sri Lanka spoke of their successful experiences here. CH2MHill highlighted their experiences in Sri Lanka in completing a range of infrastructure

projects costing USD60 million for USAID. He commended the assistance received from government agencies such as the BOI, regional officials, chambers of commerce as well as the U.S. Embassy, and said there is still a great need for road infrastructure.

Results in Over 200 Business Meetings

¶10. (U) Following the conference, the U.S. delegates had one-on-one meetings with local companies and government agencies. According to Ayoni Waniganayake, Assistant Secretary General of the Ceylon Chamber of Commerce, the CCC had arranged over 200 business meetings for that afternoon. In addition, some of the delegates were meeting with government ministers and doing factory visits throughout the week.

¶11. (SBU) Comment: The PPP conference focused on the positives while ignoring corruption, some long-standing transparency issues and other trade and investment problems. However, post believes that there are real opportunities for investment here in Sri Lanka, and the size and strength of the U.S. delegation is far stronger than we expected. The U.S. participants were quite impressed with opportunities in Sri Lanka, but they were still testing the waters, while U.S. businesses based in India seemed ready to dive in.

¶12. (SBU) Comment continued. The TIFA talks (septel) and the PPP Conference stood in apparent contrast to the general strains in the political relationship between the U.S. and Sri Lanka. Ambassador Butenis noted to the PPP conference the importance of political reconciliation and rapid resettlement of internally displaced persons to permit Sri Lanka to win the peace by developing the economy. Moreover, Ambassador Butenis and AUSTR Delaney emphasized

how providing real economic opportunities in the North and East will begin to heal the divisions of the civil war. END COMMENT.

BUTENIS